

## PREFATORY NOTE

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Meeting of the Federal Open Market Committee  
August 20, 1991

A meeting of the Federal Open Market Committee was held in the offices of the Board of Governors of the Federal Reserve System in Washington, D.C., on Tuesday, August 20, 1991, at 9:00 a.m.

PRESENT: Mr. Greenspan, Chairman  
Mr. Corrigan, Vice Chairman  
Mr. Angell  
Mr. Black  
Mr. Forrestal  
Mr. Keehn  
Mr. Kelley  
Mr. LaWare  
Mr. Mullins  
Mr. Parry

Messrs. Guffey, Hoskins, Melzer, and Syron, Alternate  
Members of the Federal Open Market Committee

Messrs. Boehne, McTeer, and Stern, Presidents of  
the Federal Reserve Banks of Philadelphia,  
Dallas, and Minneapolis, respectively

Mr. Kohn, Secretary and Economist  
Mr. Bernard, Deputy Secretary  
Mr. Coyne, Assistant Secretary  
Mr. Gillum, Assistant Secretary  
Mr. Mattingly, General Counsel  
Mr. Prell, Economist  
Mr. Truman, Economist

Messrs. Beebe, Broadus, R. Davis, Lindsey,  
Promisel, Scheld, Siegman, Simpson,  
Slifman, and Ms. Tschinkel, Associate  
Economists

Mr. Sternlight, Manager for Domestic Operations,  
System Open Market Account

Mr. Cross, Manager for Foreign Operations,  
System Open Market Account

Mr. Stockton, Associate Director, Division of  
Research and Statistics, Board of Governors  
Ms. Low, Open Market Secretariat Assistant,  
Division of Monetary Affairs, Board of  
Governors

Messrs. Balbach, J. Davis, T. Davis, Hoenig, and  
Rosenblum, Senior Vice Presidents, Federal  
Reserve Banks of St. Louis, Cleveland,  
Kansas City, Kansas City, and Dallas,  
respectively

Messrs. McNeese, Meyer, and Miller, Vice Presidents,  
Federal Reserve Banks of Boston, Philadelphia,  
and Minneapolis

Transcript of Federal Open Market Committee Meeting of  
August 20, 1991

CHAIRMAN GREENSPAN. Good morning, everyone. Would somebody like to move the minutes of the July 2-3 meeting?

MR. BLACK. So move.

VICE CHAIRMAN CORRIGAN. Second.

CHAIRMAN GREENSPAN. Without objection. Mr. Cross, will you bring us up-to-date on the Foreign Desk?

MR. CROSS. [Statement--see Appendix.]

CHAIRMAN GREENSPAN. Questions for Mr. Cross? If not, would somebody like to move to ratify the transactions as requested?

VICE CHAIRMAN CORRIGAN. I'll move it.

SPEAKER(?). Second.

CHAIRMAN GREENSPAN. Without objection. Mr. Sternlight, the Domestic Desk.

MR. STERNLIGHT. [Statement--see Appendix.]

CHAIRMAN GREENSPAN. Questions for Mr. Sternlight?

MR. PARRY. Peter, has the equality of the discount rate and the federal funds rate presented any special problems or opportunities in terms of the conduct of operations by the Desk?

MR. STERNLIGHT. It has not presented any undue difficulty, President Parry. I anticipate that it could make for slightly more volatility in the funds rate. And if the Committee were to adopt a course that had a lower funds rate expectation than the discount rate, I would look even more for possible difficulty on that score. But in the present situation, there is no particular difficulty.

MR. PARRY. Would you expect that to be a serious difficulty in terms of complicating operations?

MR. STERNLIGHT. If we were expecting a lower funds rate than the discount rate?

MR. PARRY. Yes.

MR. STERNLIGHT. I wouldn't think it would be a terribly serious problem even then. I think you'd have to be reconciled to somewhat greater fluctuation in the funds rate.

CHAIRMAN GREENSPAN. Other questions for Peter? If not, would somebody like to move to ratify the transactions of the Desk?

VICE CHAIRMAN CORRIGAN. Move it.

SPEAKER(?). Second.

CHAIRMAN GREENSPAN. Without objection. We now move to an issue we have discussed previously, which is alternative operating procedures. We have considered it on innumerable occasions and we're revisiting it today with a memorandum from Don Kohn.

MR. KOHN. Thank you, Mr. Chairman. At the last meeting several members of the Committee requested that the staff look at alternative operating procedures. The Committee seemed to be motivated by concerns about the announcement effects that we get for each change in policy these days, and in particular in the context of a possibility that at some point--perhaps later this year or next year--policy would have to be firmed to keep the Committee on track toward price stability. The Committee was sent a memo by Dave Lindsey with an attachment by Al Broadbuss and a cover by myself. [See Appendix.] I'll summarize the issues very, very briefly.

In his memo, Mr. Lindsey mentions two types of related, but potentially distinct, alterations in operating procedures. One would involve somewhat looser targeting of the funds rate than the very narrow targeting around a single level that has become the practice in recent years, without necessarily any implications about how this target is arrived at. Allowing some ambiguity for System intentions would tend to diffuse reactions to a change in policy partly because it would take some time for any such change to feed through into the market. It would allow Peter to drain or add reserves more freely than at present, perhaps damping some of the end-of-maintenance-period volatility that we have now because [earlier in each maintenance period] he is constrained [in his operations] by the level of the federal funds rate. It would allow demands for reserves to show through a bit more. It might allow the Desk to "test the waters" with respect to a policy change, without necessarily committing to it. On the other hand, ambiguity does have its disadvantages. It does risk that the market would get the wrong idea from time to time, and that puts extra volatility in the funds rate. It risks that there would be delays in having the market recognize changes that the Committee felt desirable. And additional ambiguity risks additional calls--from Congress, for example--for us to be much more explicit about our operating targets.

The second strand of change in operating procedures that Dave covered was a shift toward an operating procedure that was keyed at least semi-automatically to changes in reserves or monetary aggregates. This would introduce a greater automatism, and the funds rate would then be seen as falling out of the shifting demands for money and reserves relative to the Fed's supply, much as in the 1979 to 1982 period. We would be seen as targeting the funds rate much less. The problem here is to identify something to which you want the funds rate tied automatically. There were sufficient concerns expressed when we were using M1; the Committee gave up on that because of the volatility and changes in M1 velocity. That would seem to throw some doubt on reserves--nonborrowed or total reserves--because they're tied now exclusively, really, to M1. And even though M2 has become a more prominent target for the Committee, there is still a lot of doubt about the short- or even intermediate-term relationship of movements in M2 to movements in the variables the Committee cares about--nominal income or prices--in the short or intermediate term. So, as you undoubtedly noticed, the staff didn't come up with any conclusions about where to shift to. There seem to be pros and cons

on all of these alternatives. I would ask whether Dave or Al has anything to add to my summary. Dave indicates that he does not. Al?

MR. BROADDUS. I would just point out that I used the term "reserve target" pretty loosely in my letter. What I really had in mind is total reserve targeting--alternative 6 in Dave's memo--not nonborrowed reserve targeting, which I think is under 4 and 5. We're not saying that we think the case for using total reserve targeting as a [policy] instrument has been made yet. We're simply saying we think there's a strong case for additional research on it.

CHAIRMAN GREENSPAN. Questions from the Committee? I don't know what to make of that long pause.

MR. ANGELL. Do you want comments?

CHAIRMAN GREENSPAN. No, I started with questions, assuming I'd get comments. Now I better ask for comments. Comments, then.

MR. ANGELL. Well, having been something of an advocate of a different procedure, I must admit, Don, that in going through your analysis I really don't find anything there about which I can say "I really want to do that right now." Theoretically, I'm very much impressed with what Al Broaddus had to say in his letter. I'm very impressed with the notion that pegging the fed funds rate and keeping it steady does not necessarily mean that policy is in neutral, and I think everybody agrees with that. But the recent experience we've had with M2 causes me to have more doubts than I have had in previous years, and I suppose I am not quite as ready as I was four years ago or two years ago to introduce some automatism in the program. At one time it seemed reasonable to me that if we erred in our estimates of the demand for money, all of the error should not show up in the money stock and that we ought to let part of the error show up in a move in the fed funds rate. Now, I'm still somewhat of that opinion, but I'm not ready to advocate any of those other alternatives, Mr. Chairman.

CHAIRMAN GREENSPAN. President Black.

MR. BLACK. Mr. Chairman, I'm glad you gave us a chance to take a look at this. I don't think it would surprise anyone who has listened to what I've said that I would favor such a study. And now, like Governor Angell, I don't know where the answer would lead; and Al Broaddus certainly doesn't know exactly where it would lead. But I've never really been comfortable trying to control the aggregates by manipulating the federal funds rate because I think the demand for money for any given level of income in the short run fluctuates too much to do that. I have some sympathy for those alternatives that have a degree of automatism. But I remember that when we had the procedures in 1979-82 and we were supposed to adjust the level of borrowed reserves by half the amount of any miss in the aggregates, about two-thirds of the moves we made were also discretionary. So, I'm not under any illusions that we're really about to put [policy] on automatic pilot. But a lot of things have come along in the way of studies on this since we last looked at it. All I would advocate is that we use the System's considerable research resources to examine this question because I think all of us feel some dissatisfaction with the way we do it. But I don't believe there's anybody here who really feels that he knows the answers as to exactly how it ought to be done.

It was simple in my mind when we wanted to control M1; but it's not simple when we're trying to control M2 and only a small fraction of M2 is reservable. And we're not paying interest on required reserves, and that encourages further innovations. So, where this will lead, I don't know. I suspect we probably won't get far from where we are, but we ought to take a good hard look at it. And I think Don and Dave have done us a good service in providing us these various alternatives.

CHAIRMAN GREENSPAN. President Melzer.

MR. MELZER. In terms of the first three alternatives in Dave's memo, allowing more fluctuation in the funds rate really doesn't appeal to me very much. I don't think ambiguity would serve us very well. The point about pressure on us to divulge more about our targets if there's ambiguity about what policy is I think is a point well taken. In terms of automatism, if you will, it doesn't appeal to me to tie anything to M2; in other words, those fourth and fifth alternatives don't appeal to me at all. I guess I still have some affinity for looking at reserves or the base. I don't think we should write off M1 for all time. There's a possibility that in a more stable environment in terms of inflation and inflationary expectations M1 perhaps is going to be more meaningful. So, I would support Al's and Bob's suggestion that we do more work on that. But I don't think we're anywhere near being able to go to an operating regime that targets reserves. Something that might be possible in the short run--and this was in your summary memo, Don, not in Dave's--would be this idea of continuing to do what we do but having some broad constraint based on some short-run aggregate that may modify behavior as we approach the limits of that constraint. I really think of that as a trade-off. We've talked about this concept before in the context of the directive; when we had monetary targeting we had that caveat in terms of funds rate fluctuations. Now we have funds rate targeting and I think it would be quite appropriate to have some kind of constraint in terms of aggregate behavior. But I don't think we can look at a period as short as an intermeeting period; we've got to look at much longer-term behavior of some reserve or monetary aggregate.

CHAIRMAN GREENSPAN. President Parry.

MR. PARRY. The suggestion of introducing greater funds rate volatility under existing operating procedures is not something that I find very attractive. And re-establishing an inflexible borrowing reserve target I don't find appealing at all. But it seems to me a couple of the things in the papers are really quite [helpful]. There are some interesting points conveyed in the examples in Dave Lindsey's memo with regard to a greater role for deviations of M2 in affecting our policy in the intermeeting period. I also found Al Broadus's arguments interesting. And in the past we've gotten some [worthwhile] suggestions from Tom Melzer. We've done some work looking at Bennett McCallum's monetary base procedures, which are linked to nominal income targeting, and they seem to provide some [promising] procedures as well. It seems to me that there are enough things of some interest here that maybe we ought to heighten our look at possibilities. Perhaps the System Research Advisory Committee could look at some of these possibilities or we could even have some studies done by the FOMC itself. There are some things here that could be useful. What

we're trying to do is to find an approach that is better than the current procedure, not one that is necessarily perfect in an absolute sense. So, I think these papers are very useful.

CHAIRMAN GREENSPAN. President Forrestal.

MR. FORRESTAL. Mr. Chairman, as I look back at policy over the last couple of years, I think we've done a reasonably good job with the present regime, so I don't feel any compelling need to make any change, particularly at this time with all the uncertainties that we have. I do think that some flexibility in the funds rate is probably desirable. And if I were pressed to do something today, I would marginally favor the first option in the Lindsey paper. The other thing that occurred to me is that over the time we've been discussing this, I at least have picked up an inference--and I may be wrong--that having some flexibility in the funds rate would somehow protect us from political pressures when we have to move on the [tightening] side. I don't really buy that. If there is that inference, I think it's an incorrect one; we're going to get that political pressure notwithstanding what we do with the funds rate. I would be interested, if it's not unduly putting Peter on the spot, to ask whether from an operational standpoint he has any preference or, to put it another way perhaps, if he has any problem with those first three alternatives. Would any of those give you difficulty?

MR. STERNLIGHT. I would welcome, I think, some greater flexibility in the funds rate, although I recognize some of the counter arguments that Dave's paper referred to. But I can think of instances where we have felt somewhat constrained by what was happening in the funds market from doing the reserve injection or reserve extraction that we thought ought to be done from a reserve management standpoint.

MR. FORRESTAL. Well, I would just add one final point. I thought Al Broadus's letter was very interesting and I certainly don't think we would lose anything by embarking on the kind of research that he has indicated.

CHAIRMAN GREENSPAN. Peter, may I just follow up and ask you what you feel are the consequences of the [funds rate constraints] on your [operations]? I would presume that as a consequence you end up periodically with either a collapsing funds rate or an accelerating funds rate on a Wednesday afternoon at the close of the maintenance period.

MR. STERNLIGHT. Yes.

CHAIRMAN GREENSPAN. How often does that occur during the year, either way?

MR. STERNLIGHT. Several times, I would say.

CHAIRMAN GREENSPAN. Three or four--something like that?

MR. STERNLIGHT. Something like that.

CHAIRMAN GREENSPAN. Do you sense that there are any destabilizing occurrences as a consequence of that?



MR. STERNLIGHT. I don't think long term it has any really serious impact. If a very big, unfilled need or a very big excess developed, it might cast its shadow over our operations in the next reserve period and, if there had been a desire to effect some policy change, it conceivably could have delayed that change. I can't think of a specific instance when that occurred, but that's the kind of [situation] where I could imagine it having some undesirable effect. But I don't regard it as a really serious impediment. Just from a manager's standpoint in dealing with reserve positions, it has been a mild or moderate frustration at times to feel that we're hemmed in by the funds rate. But I've gotten used to it. [Laughter]

CHAIRMAN GREENSPAN. President Hoskins.

MR. HOSKINS. If we're to serve [the needs of] economic policy, then we ought to have a monetary policy that is credible and consistent. Putting more fluctuation in the funds rate doesn't provide the markets much information with respect to either one of those goals. I would be in favor of trying to link the funds rate to a broader target like M2, but even tying ourselves to an aggregates target without any explicit long-term objective in mind seems to me to run the risk of introducing some uncertainty with that target as well. So, just to follow up on what Bob Parry suggested: Although I wouldn't go for nominal income targeting, I would like to link the funds rate a little more tightly to a broad aggregate like M2, but then I would like to have a multi-year price level objective in mind so that we don't introduce more uncertainty by focusing more on the monetary aggregates.

CHAIRMAN GREENSPAN. President Syron.

MR. SYRON. Thank you, Mr. Chairman. I think you largely asked my question. I'd just like to add, Peter, to the question the Chairman had, and ask about how you feel in a situation in which you believe--of course it may not be possible to forecast this--that the constraints that you're under would have an effect upon the outcome of the ultimate variables that we're worried about. I presume there are procedures that you could follow now in consultation with the Chairman and others to deviate from a tight funds target [constraint] for a short period of time.

MR. STERNLIGHT. Yes, I guess so. But we feel that the funds rate is a constraint at this time. The reason we feel it is a constraint is that we don't want to mislead the markets. [Unintelligible] I presume an approach that I might develop in consultation with Don Kohn and the Chairman.

MR. SYRON. My overall concern, as other people have said before, is dissatisfaction with the current system--understandably so. But life is an imperfect situation. And at least in this situation, I see more or as much volatility or lack of stability in the financial sector as in the real sector. That makes me concerned about doing anything in the short- to intermediate-run to change the approach that we're taking. I completely agree with the concerns that people have about the lack of desirability of introducing greater ambiguity.

CHAIRMAN GREENSPAN. Any further comments? I appreciate the [difficulty] of trying to [develop] a study that approaches this

question. If I knew all the things we were to study that we don't know--. I'd be curious to ask Don and David: Is there any significant, unexplored statistical or analytical area from which we might focus on this issue that would be a productive use of the resources of the System?

MR. LINDSEY. Well, I think you could answer "yes" to that question without the results of that research necessarily having any implications for a change in FOMC operating procedures. I think Al's letter raised some interesting research issues that ought to be given more attention by the staff of the nation's central bank. But I guess in my own mind we have a sufficiently close handle on the Committee's desires and on the relationships at work that it wouldn't imply, therefore, that the Committee ought to alter its operating procedures. On the other hand, I would support--this is my personal opinion and Al and Don may disagree--additional research, which to some degree is ongoing in any event. We could add a bit more emphasis to it. But I'm not sure in my own mind, whatever the results of that work within reasonable boundaries, that it would have any real implications for our operating procedures.

CHAIRMAN GREENSPAN. Al.

MR. BROADDUS. Well, I don't disagree with that. It seems to me that there is enough room for long-term improvement in the way we do things to at least do a substantial research project on this. I don't think we really know how a total reserves operating procedure would work. We would have to study that in the context of the overall strategy and situation. We'd have to ask questions like what would we tie that instrument to in the way of the longer-term goal and whether we should still have intermediate targets. But it seems to me there's enough out there that we need to understand to justify a fairly focused research effort within the System. And I think we have the resources in the System as a whole to do that.

MR. KOHN. I agree with both Al and Dave. I think what I'm hearing from the Committee is no sense of urgency for coming up with something new, partly because of the skepticism Dave expressed as to whether there really is something new out there that would solve our problems or appreciably [lessen] the difficulty we see with the current procedures. What I was going to suggest, Mr. Chairman, is that I consult with Al and other research directors around the room to see whether we could at least have some ongoing research on these issues. The McCallum research on targeting the base, which keeps popping up in every conference I go to, for example, and some of these other things are areas in which the System ought to be doing work. It doesn't mean that something has to be done by the next FOMC meeting. We ought to be able to focus our resources in a way that at least answers some of the outstanding questions or approaches. I think that would be the right thing for the central bank to be doing.

MR. BLACK. One of the big reasons reserve targeting has been opposed in the past has been the feeling that it would cause more fluctuations in short-term interest rates. And as Al indicates in his letter, there is some evidence now that that might not be the case for long-term rates. That could be an important factor, I think.

CHAIRMAN GREENSPAN. I think we're all acutely aware that holding steady with the funds rate is not the same as a stable monetary policy. Even though we focus on that as an instrument, I don't think there's anyone around this table who believes that a flat funds rate is equal to a stable monetary policy.

MR. BLACK. It's awfully hard, even if you know what you want to accomplish, to pick the [appropriate] fed funds rate.

CHAIRMAN GREENSPAN. So, it may not be a bad idea to expand our insights into this area. It may not be directly usable but I think if we learn something, the payoff is very large.

MR. HOSKINS. Well, that gets back to a thought that I had when Dave was speaking. It's not clear in my mind what you mean about research. It seems to me that we've done a lot of research; more can be done. Are you getting at the idea that the problem of implementing some of those research findings has more to do with the Committee's view about multiple objectives rather than focusing on a single objective? Are you saying that we have some research to date--

MR. LINDSEY. Well, I wouldn't draw as tight a link as you did between many or only one ultimate target and the procedures for intermediate targeting and operating targets that might get us there. I think one could essentially have the Neal resolution passed, have price stability as our ultimate objective--period, and still end up through a deliberative process deciding that our current operating procedure is probably the most sensible way to get there. So, even if there were a clear decision to move to price stability with no ifs, ands, or buts, there would still be these issues as to whether or not the way to get there is more or less doing what we're doing now but with that end in mind.

MR. BROADDUS. Could I just--

CHAIRMAN GREENSPAN. Go ahead, Al.

MR. BROADDUS. There is some evidence that that might not be the case. We may well wind up there, Dave. But there are at least some models that suggest that long-run price stability simply may not be consistent with the procedure we're using now.

MR. LINDSEY. Well, it's true that if you're not taking seriously that long-run objective, then you're not going to get to price stability. Lee wouldn't disagree with that.

MR. HOSKINS. That's right.

MR. LINDSEY. On the other hand, if you are taking that seriously, I'm confident that you could move the funds rate in a manner over time that would get you there.

MR. MULLINS. I think it would be useful in this second stage of research to define the problem pretty carefully in terms of what we're trying to achieve. It is true that everyone recognizes a stable funds rate is not a stable monetary policy. What has been difficult to convince people of is that a change in the federal funds rate may be an unchanged monetary policy. That is a bit more difficult.

CHAIRMAN GREENSPAN. It logically follows the first.

MR. MULLINS. Yes, everyone buys the first.

CHAIRMAN GREENSPAN. Well, the second is directly derivable from the first; it should not be difficult to convince--

MR. MULLINS. We haven't been able to write QED after the second one. It does seem to me that we also lose some information when we don't allow markets, in some range, to tighten and loosen on their own. So, part of the research should be to think about, at a very practical level, how we've achieved what we think is a mistake now. I feel pretty uncomfortable picking a fed funds rate out of the dark and also with this process of two types of changes in the fed funds rate, one being a change in policy and the other not being a change in policy. With that narrow sort of definition of the problem as well as the broader definition of the policy of [unintelligible] the question of reserve targeting and targeting to price levels at a broader objective level.

MR. ANGELL. Well, when David Lindsey speaks about the present procedures, I think he's correct that none of us really had in mind a year ago that we wanted to get the fed funds rate to 5-1/2 percent. No one really seems to have in mind the fed funds rate that is driving us. What has been driving us in a sense has been a kind of feeling our way in all of the procedures [on the basis of] all of the information that we have; and we find ourselves with a 5-1/2 percent fed funds rate. So, I don't think that the [current] procedure necessarily means that we're really hooking on to some predetermined fed funds rate. I think in a way many of us are surprised to find ourselves at this juncture with a fed funds rate of 5-1/2 percent. And since we're surprised, then it must be that we have considerations that are driving us other than the fed funds rate.

MR. BLACK. You'd be surprised as to what the aggregates are doing with that particular fed funds rate, which we thought would be something very different.

MR. KELLEY. That's right.

MR. BLACK. And therein lies our frustration, I think.

CHAIRMAN GREENSPAN. But in a sense, therein lies what policy is all about. It is, in effect, what we have endeavored to do just to balance two--in fact, a lot more than two--variations from our intermediate expectations. Any other comments? If not, unless I hear any objections, I assume that Don's suggestion probably does capture the general tenor of this discussion and I would ask him to go forward with that. And we shall wish him well, because I'm not sure what--.  
[Laughter]

MR. ANGELL. And there may be Federal Reserve Bank research departments that might wish to take on some additional tasks relating to what has been done at the Board.

CHAIRMAN GREENSPAN. That's what we intend.

MR. KOHN. Well, I would intend to coordinate with Al and other research directors.

CHAIRMAN GREENSPAN. Another round.

MR. KOHN. I didn't intend to make it just a Board staff project at all--as little as possible! [Laughter]

CHAIRMAN GREENSPAN. Okay. Shall we move on then? Another item that has come up previously and was deferred to a study relates to the directive language concerning intermeeting adjustments. This is an issue that Governor Kelley has raised and he in conjunction with Don Kohn has brought forth a memorandum. [See Appendix.] Governor, would you like to chair us through this?

MR. KELLEY. Thank you, Mr. Chairman. When you say that a study has been done on this subject, that's giving it much too much credit. We haven't done a study but--

CHAIRMAN GREENSPAN. You have given it some thought.

MR. KELLEY. Yes, some thought. As I indicated to you in my memo of May 20, it seems to me that the Committee might well review the language that we employ in the operational paragraph wherein we indicate the areas of concern--theoretically, in rank order. That order has not changed now for 38 months, and certainly [the economic] conditions and the nature of the discussions that have taken place around this table have changed over the course of that period. To refresh the Committee's memory: We established that language on June 30, 1988--or at least we established that rank order of considerations; the rhetoric has changed some. Since that time there have been 5 tightening moves, 1 discount rate move in an upward direction when we went to 7 percent in February of '89, and the directives have had 6 tilts toward tightness. We reversed direction in June of 1989 and since then there have been 17 easing moves, 3 discount rates changes in the direction of ease, and 9 directives that tilted toward ease. And sprinkled throughout that whole period in both the upward and downward direction, there have been 9 symmetric directives. So, a lot of water has passed under the bridge while nothing has changed here. And it appears to me that we may want to take a look at that.

In my view, either alternative 1 or alternative 3 in my memo would be preferable to what seems to be our current practice, which is simply not actively managing it. I think [the current practice] is probably viable because it has become pretty much meaningless, but it's not very desirable for exactly the same reason. If we don't feel that we want to manage that language actively--or more positively, if we decide that it's simply not very useful any more--then I think we should consider dropping it, or changing the rhetoric perhaps, or employing Don Kohn's additional thought that appears as number 4 in his memo, which I appreciate having. The latter would change the recitation of the factors; it would keep them in there but blur their order of presentation.

For what it's worth, I think that active management of that language is useful. I know in my own case it's a useful pre-meeting discipline to think through that. It seems to me that for the

historical record of the activity of this Committee it has real value. So, I personally would like to see us keep it and come up with a system where we review it in a way that will keep it fresh and current but still not be an undue burden on the Committee. I would appreciate very much having some other members' thoughts. I'd like to ask Don Kohn first of all if he'd like to add anything.

MR. KOHN. I don't have anything to add to what you said. Obviously, we would try to be helpful and come up with suggestions for implementing whatever the Committee decided it wanted to do.

CHAIRMAN GREENSPAN. Questions?

MR. HOSKINS. I think there's some merit in focusing on our longer-term objective right up front and consistently saying what it is. The question is whether we can agree on it. I guess we can as long as we don't put a time frame around it. If we start to say we're going to do it in three years or five years, then I think disagreement will arise. But I think highlighting that as the major policy thrust over time is important.

CHAIRMAN GREENSPAN. I'd just like to add that it doesn't necessarily follow that holding that list of objectives constant through that period of ups and downs is necessarily a contradiction.

MR. KELLEY. No, absolutely.

CHAIRMAN GREENSPAN. You can create that type of phenomenon. The issue is: Does that occur consciously or has it just become a mantra of some kind for us.

MR. KELLEY. Well, one rationale by which it could have been actively kept that way is for this Committee to have decided that it permanently wants to keep absolutely preeminent under any conditions this focus on price level stability. And if that's what we want to do, then to me there is a better way to express it rather than to continue to imply that there's a rank order and that somehow or other price stability inevitably comes first. We can do it in a different way and still make due allowance for that price level stability preeminence to be expressed.

MR. ANGELL. You mean have a separate sentence that indicates our commitment to price level stability?

MR. KELLEY. Yes, and then deal with the others.

MR. ANGELL. And then deal with the others. Well, I think there's certainly some merit in that approach.

MR. KOHN. Governor Angell, there is a sentence already in the directive. If you look on the last page of the package with Governor Kelley's memo, there is a copy of the July meeting's directive. The first sentence at the top of the page that precedes the discussion of the long-run ranges does, in effect, do that. We could change the wording of that sentence.

MR. ANGELL. What sentence are you talking about, Don?

MR. KOHN. "The Federal Open Market Committee seeks monetary and financial conditions that will foster price stability and promote sustainable growth in output." It's page 2 of the directive.

MR. KELLEY. Right. It's one paragraph up from the one I'm talking about.

MR. KOHN. Now, we could play with that. The issue is how the intermeeting directive fits into those already stated goals.

CHAIRMAN GREENSPAN. Vice Chairman.

VICE CHAIRMAN CORRIGAN. To pick up on a point that you made, Mr. Chairman, I'm not inherently troubled by the fact that the rank order stayed the same over this whole period, despite Mike's clever recitation of all that took place in that period. On the other hand, if you look at this table, there are at least a few cases in which the change in the rank order did mean something. For example, around the time of the stock market crash in October 1987, there's no question that that change really meant something. Whatever we do, I think we have to preserve some flexibility to take account of things like that. On the other hand, I fear that if we got into the practice of managing the rank order as part of the normal deliberative process of the Committee, it could be disruptive to the policy process. For example, I think it would be terrible if we ended up with a situation in which the Committee couldn't reach a reasonable conclusion about the thrust of policy because of a great debate as to what should be number two versus what should be number three or number four versus number two. If we were going to move in the direction of what Mike Kelley has characterized as an active management of the rank order, the only way I can see that that can be done without running the risk of disrupting the normal consensus-building process within the Committee would be in a context in which there would be a consensus on that point after the policy directive itself had already been voted on. The thought of inviting dissents over what is number three versus number two I think could be very disruptive.

CHAIRMAN GREENSPAN. Well, the problem there is that just procedurally, if you have, let's say, a list of five items and a Committee this large to make a judgment, the time frame required to solve that matrix--

VICE CHAIRMAN CORRIGAN. That's my point.

CHAIRMAN GREENSPAN. --goes way beyond lunch, dinner, and whatever else. One possibility is that we can alter this list in a very generic way once a year or something of that nature as we do the monetary aggregates when we're looking at them in a sense as a separate policy orientation for the period ahead rather than at every meeting. Were we to do that, we could actually do that almost independently of the deliberation process of a specific directive in the same way that we do the monetary targets. I'm not certain that we need to change these every meeting. But I do think that we should either freeze them permanently--meaning that this is the Committee's formal set of objectives in the order of our priorities, which is invariant to specific economic conditions that we're confronting--or have some greater flexibility where they might change over a period of time or in cases where there was a very specific indication such as

the stock market crash or, as we'll be discussing later, this very peculiar M2 problem that we're running up against. [In the latter case] there are potential recommendations to alter the directive with that characteristic being in a sense a specific short-term type of adjustment for a specific meeting. I don't know how that strikes you, Governor Kelley, as a recommendation; it sort of comes to grips with the problem you raised but hopefully doesn't get into the problem that Jerry Corrigan raised.

MR. KELLEY. I totally agree with Jerry's concern. It may indeed be insurmountable and, thus, we may want to look in other directions. I would have no problem going in your direction, and I think that Don's [proposed] change could be a way to get at that. And if we have another event of the magnitude of October '87, we can change the language on that occasion.

MR. ANGELL. Mr. Chairman, I like that suggestion. If we were to do that, say, at the December meeting, that would be a "goals" meeting, which could then precede our establishment of the ranges at the February meeting.

CHAIRMAN GREENSPAN. As part of the discussion?

MR. ANGELL. As part of the discussion. But I think we should leave open the opportunity for some intra-year moves that might take place when events occur during the year.

CHAIRMAN GREENSPAN. President Parry.

MR. PARRY. I guess I'm not as enthusiastic about that suggestion. It seems to me that an approach that would solve our problems and in addition enable us to highlight things that we think are important when important events occur is what Don indicated in 4.b. on page 3 and a slight variation of 4.c. on page 4. That does involve repeating the long-term objectives, but it states them there and then just indicates the kinds of things we want to put in at a meeting that are of particular importance. If we don't go through each meeting ordering the four or five elements, this just focuses on things that at that particular meeting were important. To me this has the flexibility and also the emphasis on the longer term, and I think it's very constructive and preferable to what we have.

MR. BLACK. Well, I think Governor Kelley has done us a real service in pointing these things out. I've been uncomfortable for a long time with the way we've handled this thing. And even though we ourselves don't pay much attention to this, the Fed watchers do pay a lot of attention to it and they think it's an indication of our practice. More importantly, if we do change them, they think that means we've changed our emphasis. So, if we continue doing that, there's a strong argument for doing what is almost the unthinkable, as you and Jerry have pointed out, of debating this and maybe reaching an impasse at every meeting. So, I've concluded that what I think you are all moving toward is that we should eliminate this language and take another route. Changing this list, even infrequently, tends to promote the perception already held by many that we are constantly changing our objectives and we're trading off one objective against the other. And I don't think considering the list at each meeting would add anything to our policy deliberations; that could hamper us.



as Don pointed out, and you and Jerry also have mentioned. So, my preference would be to adopt what is Governor Kelley's point 3 and Don's example under 4. Don gives three examples and I like the one labeled 4.b., which is at the bottom of page 3 in his memo, because it puts long-run price stability at the head of the list. And needless to say, I'd want to retain the reference to the aggregates because right now I think that is the best route to get to long-term price stability, although our views may change as a result of this study we talked about earlier. But adherence to that approach doesn't necessarily bind us to that every time. If we have a particular situation like we have now, with extreme weakness in the aggregates for some unexplainable reason, or like the stock market crash in October of 1987, then we could certainly change it. But I would like to start off with saying something about price stability. As Don pointed out, there is such a reference in the previous paragraph, but I don't think it would hurt to put it at the beginning of the operational paragraph too and make it a generic reference. I would very much favor doing that.

CHAIRMAN GREENSPAN. President Melzer.

MR. MELZER. The more I listen to this discussion, the more I think that maybe we ought to do away with this listing. That's partly because the table presented in Governor Kelley's memo reminded me that I've seen that table in certain research where people try to figure out what the Fed is doing. That sort of scares me because, as Jerry pointed out, sometimes we consciously change [the items in the list] and sometimes we don't think about them at all. And it seems to me the purpose of that language is really guidance to you, Mr. Chairman, and to the Desk in the intermeeting period. I personally have confidence in your having listened to the discussion in the meeting and in your interpretation of that, and I'm not sure you need that guidance. And I'm not sure that guidance adds any value to public [understanding], really. These are sort of boiler plate things that any central bank is going to take into account in setting policy. So, I'd be in favor of doing away with that recitation myself.

CHAIRMAN GREENSPAN. Governor Mullins.

MR. MULLINS. I think Tom raised an interesting point. If you look at the context here, this is not a recitation of long-term goals; it is the implementation of policy for the immediate future--in the intermeeting period--that we are focusing on. And that's why it's so useful to have the flexibility to signal that there's a near-term concern like the stock market or, if the dollar should collapse, that in the near term there is special emphasis on that. That's a fairly rare circumstance, but it's nice to have a device already in place to deal with it. In thinking of what to do in default when we don't have that, I like the notion of considering it once a year with the targets to establish what sorts of things we look at in the intermeeting period in normal times. But I think we'd have less flexibility if we didn't have language here to guide the intermeeting period focus; and then when we have one of these events, it's a more jarring change somehow just to interject exchange rates or credit market conditions and the like [in the directive]. So, I guess I would prefer having a standard list that we would consider for the next year, i.e. what would be the kind of default issues we would look at. Price stability would be number one, but we then also have there the mechanism for

signaling concerns. It is different, though, than the longer-term objectives because we're really talking about what we might focus on in the immediate future.

MR. MELZER. Dave, wouldn't you think the policy record would reveal that, though? Wouldn't it reveal our particular concern without restating that in the operational paragraph of the directive? That was my main point.

MR. MULLINS. Yes, we could just write it out. I think it might be useful first to state what in normal times are the issues that we look at, and this would be a nice simple concise way. If we had a clearly conceptualized approach to this, it wouldn't bother me if this showed up in tables. I think it's a concern if it shows up in Fed watchers' tables when we aren't focusing on it and don't have it clear in a gut sense.

MR. MELZER. Yes.

MR. KELLEY. That's it.

CHAIRMAN GREENSPAN. President Syron.

MR. SYRON. Mr. Chairman, along with what everyone has said, I think we have to be careful not to try to send too many messages to the market. We're having people see three messages, perhaps, for every one we're trying to send. In that regard [I like] your suggestion for [reviewing this] once a year. And I think David [Mullins] is absolutely right that we want to retain it and make it an extraordinary event to some extent when we change these things. In what we present in a once-a-year approach such as you suggested it is important that we get in there that while we're focusing on price stability, we're focusing on price stability for a reason. And that reason is that it's not an objective by itself; it's an objective in order to maximize real economic welfare. Sometimes--fortunately not in this group but outside--there can be some confusion about that.

MR. HOSKINS. I think we're trying to serve two purposes here. One is to provide information. And the second is procedural: to help us conduct our policy affairs and make sure we're getting things right. Where I come out on the information question is that there's not much informational content because what these five or six factors that we list tell people is that we have multiple objectives. We can say price stability and long-term economic growth until we're blue in the face; but if we list those, we're signaling to the market that those things are important to us and we'll shift them around when we feel like it. I don't like the list personally because I don't think half of the items should be in there. So, I'd go essentially for Bob Black's and Tom Melzer's suggestion and reduce the list. I guess that's 4.b. on page 3 of Don's memo.

CHAIRMAN GREENSPAN. Any further comments?

MR. BLACK. I think this point bears on the one that you raised earlier about our not thinking of a change in the federal funds rate as a change in policy and yet the market, or most of the market, does. If we had this overall summary statement as in Don's example 4.b. on page 3: "In the context of the Committee's long-run

objectives for price stability and sustainable economic growth, somewhat greater reserve restraint..." then we can go into these things. But we have said that that is in our judgment compatible with our long-run objective and I think it would reduce the tendency of the public to think of that as a change in policy when it really isn't. That's one of the main reasons I lean toward a reserve base measure because if we had that, we could have interest rates go this way or that way and we wouldn't have any better idea as to which way they would go than anybody else. I don't know if they would tend to be interpreted that way, but it is just the natural fallout of trying to seek a long-run objective; it may involve lower rates or it may involve higher rates, and that can change all over the place from time to time.

CHAIRMAN GREENSPAN. Any further comments? It strikes me that we've made considerable progress on the issue that you've raised, but we haven't resolved it yet. If I may, Governor Kelley, I would request that for the next meeting if you could perhaps get views in somewhat greater detail from all the Committee members and the nonvoting presidents, you may find that there is a much more solid consensus than may appear here. But I think there was a growing view somewhat in your direction on this question. If you can query everyone with respect to their specific suggestions, you may be able to bring before us at the next meeting something capturing this discussion with alternative recommendations. Clearly, item 4.b. is one alternative; the one that I mentioned is another; and there may be a third, or something else you can come up with. Get it down to two or three specific things and we may be able to resolve the issue at the next meeting. So, if you wouldn't mind, I'd--

MR. KELLEY. I'd be happy to do that, Mr. Chairman. My sense is that there is a large common core of thought here among Committee members as to whether to do this, although there probably are nuances from every seat around the table. We'll come back with some proposed alternatives.

CHAIRMAN GREENSPAN. One possibility being to eliminate it completely.

MR. KELLEY. Sure.

CHAIRMAN GREENSPAN. Or change it to something different.

MR. KELLEY. Thank you.

CHAIRMAN GREENSPAN. Okay. We're now up to [our review of] the economic situation. Mike Prell.

MR. PRELL. Statement--see Appendix.

CHAIRMAN GREENSPAN. Questions for Mike?

MR. MULLINS. Where do we stand on our inventory scenario? What happened in the second quarter and what do you think is happening now?

MR. PRELL. Well, what happened in the second quarter was clearly a liquidation of stocks in the nonfarm business sector. We

believe on the basis of the data that came in after BEA's advance estimate that that liquidation will be, in all likelihood, deeper in the revised numbers but perhaps still not quite as sharp as we had anticipated in our June Greenbook forecast. Looking ahead, while one can see in the June data--if one wants to read them very closely--some hints of a diminished rate of liquidation, basically our view is that, in light of the anecdotal evidence and our anticipations of what behavior would be at this point, we are probably still in a phase of inventory liquidation but at a slower pace than earlier. And probably we are not swinging toward stability or accumulation quite as rapidly as we had thought we might be in our prior forecast. As I indicated, businessmen just seem to be very cautious and not at all confident that the recovery and the demand are there and will remain there. So, I think this process is likely to be stretched out some relative to our earlier forecast.

MR. MULLINS. You have in the Greenbook for the second quarter a negative \$21 billion [for inventories]. What was in the advance number--negative \$16 billion or something?

MR. PRELL. What is in the Greenbook is the BEA number. We think we're likely to have several billion dollars less inventory investment.

CHAIRMAN GREENSPAN. Are there any biases in the inventory change numbers as a consequence of the [change in the] price base? In other words, do real inventory levels change or will they be significantly altered with the move to 1987 prices in the November base revision?

MR. PRELL. I would think that oil would be the major item of inventory that would be significantly affected, but obviously other items could be affected to a lesser degree.

CHAIRMAN GREENSPAN. Do we know the direction of the effect?

MR. PRELL. I have not seen estimates and I don't think we are able to replicate those estimates at that level of disaggregation; we could not really pin that down.

CHAIRMAN GREENSPAN. One of the things about which there could be a concern is that we are viewing the outlook in the context of a set of homogenous goods--units from which we interpret there is liquidation of a certain dimension--and it could conceivably turn out that a goodly part of our presumption is wholly the result of the arbitrary choice of a price base.

MR. PRELL. Well, there are always risks that the inventory numbers could be significantly revised. History provides very discomfoting examples of this kind of thing. The evidence--in terms of surveys and in terms of what we see going on in industrial production and orders and so on--is consistent with our impression that, indeed, inventories have continued to be liquidated. But the dimensions are important here. So, if there are errors in these numbers, they could be misleading us.

CHAIRMAN GREENSPAN. I would suspect that the forthcoming durable goods order series is quite crucial to this in the sense that

if the rate of liquidation is what it appears to be, that figure should be moving up, not sideways or down.

MR. PRELL. We would like to see firmer numbers than the June figure. The June figure wasn't particularly a surprise, in a statistical sense, coming after the pretty good gains we had seen in the prior months. At this stage of what we think is a recovery, erratic movements without a clear-cut, month-by-month upward thrust are not uncommon. But, as I said, the major areas in which we became somewhat more insecure were how rapidly the inventory turnaround would occur and how much spending on business equipment would improve. I'd say those figures will be of considerable interest.

CHAIRMAN GREENSPAN. President Parry.

MR. PARRY. The assumption made in the forecast with regard to the dollar is that it remains constant. Is that an exogenous determination? And if it is, what, for example, would the MPS model give for the dollar and what would be its implications?

MR. TRUMAN. Well, viewing the forecast as a whole, it is not an assumption that is part of the projection process. It is endogenous to our outlook for interest rates here, which is where we start from, our outlook for interest rates abroad, and what else is going on in the forecast. The MPS model has a slightly different exchange rate equation than most others, none of which does very well these days. Basically, since the forecast for interest rates is flat here and flat abroad, the unchanged dollar, at least [to the extent it is] driven by interest rates, is consistent with that. To the extent that one wants to add in some view of what is happening in the current account, which some other equations do--that's a feature that has tended to do very poorly in the models recently--the fact is that the current account is continuing to be in the negative. It is quite modest, at least taking the judgmental forecast. Again, I don't think you can find any particular downward pressure on the dollar from that.

MR. PRELL. Just to clarify something stemming from an earlier question from Governor Mullins: Our guess is--just reading the data that we can see on manufacturing and retail/wholesale trade--that the inventory liquidation that was put at \$3 billion in the initial GNP estimate will be more like \$11 billion. So, it's a significant change.

VICE CHAIRMAN CORRIGAN. Say that again, Mike.

MR. PRELL. We think that the manufacturing and retail and wholesale trade data imply a downward revision of roughly \$8 billion in the inventory accumulation rate in the second quarter.

CHAIRMAN GREENSPAN. Any further questions for Mike? If not, would somebody like to start the Committee discussion?

MR. KEEHN. Mr. Chairman, we have been forecasting a modest recovery and it seems to me that at best that's what it seems we have been getting. Our forecast has been a little weaker than the staff forecast and with the passage of time I'm afraid the difference seems to have narrowed.

With regard to the District, I think overall conditions are continuing to show improvement, but certainly this unevenness continues. The auto sector remains the key uncertainty, with the change in models. Recent sales trends have been encouraging at least but still far from strong, and the numbers are really confused by fleet sales. It's very difficult to get at those numbers and really determine just what the underlying retail demand for cars is. The '92 models have been introduced and the introduction hasn't gone quite as well as had been generally hoped. Indeed, attitudes in our District are a little more negative than just a month ago. In fact, one manufacturer is concerned enough about the way the '92 sales are going that they are going to put out a nationwide sales pitch of an unprecedented level in September. Having said that, the retail dealer inventory is very low; no correction there is necessary. But despite that, the production risks, looking at the third and fourth quarters, are still viewed as being on the down side. Of course, the three main domestic manufacturers are reporting big losses. And heavy truck numbers continue to be very weak; sales forecasts for '91 are estimated at about 90,000 units for the Class A trucks and that's down some 25 percent from 1990, which itself was a weak year. The recreation vehicle business, which is very important--particularly to Indiana--also is pretty weak. That business continues in a three-year slump now; [it's down] as much as 25 percent for some individual manufacturers. The steel business, though, is doing a bit better. Those manufacturers supplying the auto industry are operating at a slightly better level; 80 percent of capacity is the overall industry average. And the current level of orders is responding to the slight pickup in car production; the current level of orders of those supplying the auto industry is at about 150 percent of capacity, but they do caution that those steel orders are subject to cancellation. Nonetheless, they are forecasting for this year shipments of about 76 million tons and the initial forecast for '92 is 82 million tons.

In the agricultural sector, the drought, as I commented the last time, is beginning to have some negative effect on the outlook for crop production. So far it's not nearly as severe as the 1988 drought, and we do not expect this to move into the banking sector and cause the kind of problems that we had before. Nonetheless, in terms of our District--and I think we are perhaps a bit more impacted by the drought than some other parts of the country--corn production will be down about 15 percent from last year and soybean production will be down about 4 percent. But because the drought conditions are recent, prices haven't risen as much as one might expect and, therefore, farm income will be adversely affected. That is beginning to show up in the weakness of sales of agricultural equipment, and the main manufacturers of ag equipment are beginning to pull back their production schedules for the remainder of this year.

On the inflation front, I must say I continue to be impressed --really almost surprised--by the very, very heavy and continuing pressure on prices. Competitive conditions out there are very intense and price increases at least from a [unintelligible] just aren't sticking. Manufacturers are able to get a [price] reduction on their purchases of raw materials and other parts and products. Some of the reductions really are quite impressive, so they've got a very good control on their costs. Offsetting this, and Mike alluded to it, there has been some recent shift in labor contracts; some of the more recent contracts are not coming in quite as favorably as they were

earlier in the year. I would point out that Deere and Caterpillar are just starting their negotiations. These are very important contracts. And certainly, the caps in their discussions particularly are starting off badly. They can't even agree on the sites where they're going to hold the negotiations.

With regard to the credit crunch--and I must say here I'm certainly speaking from a Midwestern perspective--the problem, at least in our part of the country, doesn't seem to be as bad as in other regions. I think there is a slight shift taking place. Though banks have raised and continue to have pretty high credit standards, for those companies and borrowers that do meet these standards there's plenty of credit available. A CEO of one large regional bank told me the other day that for any good credit that goes on the table, five banks are coming after it pretty quickly. In the consumer credit area--and we do have a director who follows consumer activities pretty closely--I must say the level of personal bankruptcies is getting a little worrisome. The numbers are up very significantly this year over last year. And this seems to be showing up in increased delinquencies in [banks'] consumer portfolios.

The recovery still seems to be on track but it's certainly modest and uneven and very, very susceptible to shocks such as what we experienced over the weekend. From a policy perspective, continuing ease is the best policy to facilitate the continued recovery and seems to me an appropriate course of action. Thank you.

CHAIRMAN GREENSPAN. President Parry.

MR. PARRY. Thank you, Mr. Chairman. Following weak activity in recent months, the Twelfth District economy shows few signs of recovery at the present time. California's economy, which contracted somewhat less than the nation's throughout most of the recession, remains sluggish. Payroll employment has been flat since March; manufacturing and construction employment continue to contract and cutbacks planned for state and local government sectors are expected to weaken employment further. I might also add that we're likely to see greater weakness in the aerospace industry primarily located in southern California as well. If you look outside California, the conditions are really quite mixed. States such as Washington, Oregon, and Nevada have experienced employment declines in recent months and that's a bit of a change from what their experience had been a few months ago. Also, as in California, the weakness in their employment has been primarily in construction and manufacturing. Three states--Idaho, Utah, and Arizona--remain relatively strong, with rather impressive increases in employment. Nonresidential construction is obviously quite weak; residential real estate construction is showing some signs of recovery. Sales activity and median prices are above their year-ago levels in California and in the West in general. Permits for new construction are up as are housing starts, at least for the month of June. This renewed activity, however, has yet to be reflected in increased construction employment, and we do have quite a few builders reporting difficulty in [obtaining] financing. I might note that the banks in general seem to be talking much more about difficulties they are having with the examination process and the impact that is likely to have on their lending decisions. I might also point out that it seems to me reasonable to assume--and this was alluded to in the Bluebook--that given some of the major mergers

throughout the country and particularly the one in our District, it's likely that the enthusiasm with which these banks approach new and existing business in the six-month period when they're putting together their mergers will be considerably less.

If I can turn to the national outlook, our forecast is not greatly different from that in the Greenbook, if one assumes that the value of the dollar remains constant. I think that is a critical assumption. In the near term I would assume that the main sources of the strength in the economy would be household outlays on such things as durable goods and also housing. Next year perhaps we can look forward to something of a turnaround in business spending for equipment. Obviously in this forecast, as has been mentioned by many others and certainly by Mike Prell, there are both downside and upside risks. Clearly, the recent slowdown in M2 and concerns about financial fragility do raise the prospect and the risk that the recovery could turn out to be less than that in the Greenbook. But I also have to take into account the chance of a more typical post-recession pickup in expenditures. It wouldn't be the first time that we've been surprised by the strength of the recovery. While I'm optimistic about inflation and I think it will decline over the next year and a half, the recent behavior of wage costs is certainly a concern. And those concerns were adequately expressed in the Greenbook. I might note in closing that we do have a model forecast where the dollar is treated endogenously. In light of what has happened in the last 48 hours, the discussion of a lower dollar doesn't seem as relevant. But that forecast includes the possibility of the dollar declining between now and the end of next year at a rate of about 15 percent. The impact on real growth in 1992 is very substantial; it adds more than a percent to growth and adds about 0.3 of a percent to inflation. I have to admit that I am more comfortable with the assumption of a constant dollar, but most of the models I've looked at have a tendency to cause the dollar to decline somewhat.

CHAIRMAN GREENSPAN. President McTeer.

MR. MCTEER. The Eleventh District continues to lag the national economy. Therefore, it has weakened since the last meeting and is probably a drag on the national recovery at this point except that one source of Eleventh District weakness, which is low natural gas prices, is probably helping the national economy somewhat. Another source of weakness locally is the slowing in the building of petro-chemical plants in the Gulf Coast region. Geographically, the Houston area has accounted for 40 to 50 percent of the job growth in the last year or so and that has now stagnated somewhat.

Turning to our view of the national economy, the staff is not too worried about a double-dip, based on their review of past double-dips and the characteristics they had. They find that inventory explanations are largely present that are not relevant now. Also, they expect net exports to gain strength and there have been five consecutive months now of a rising index of leading economic indicators. Recession in that context is fairly unprecedented. The staff is not as worried as I am about the recent decline in the broader measures of the money supply. They tend to view it as a fairly benign disintermediation process away from depositories into stocks, bonds, and other types of instruments. But I do believe it's important to get money back on track, regardless of the explanation



for the slowdown and the decline. And in the context of the previous discussion, I believe that the will to do so is more important than the way or the method to do it.

CHAIRMAN GREENSPAN. President Black.

MR. BLACK. Mr. Chairman, we're very, very close to the staff, as we usually are, and maybe even closer this time than ordinarily. We'd be very happy if we got the outcome that they think is most likely, but from the standpoint of policy the relevant question is where the risks lie. I think the staff concludes as we do that the risks probably are on the down side, when you think about the insurance problems--and now we have the casualty insurance companies hit by hurricane Bob--the so-called credit crunch, and the weakness in the aggregates. We ought to keep in mind some other things, too. There's always doubt when you're in a recession as to what it is that's going to take you out of it. I remember that in every single one we've had. Mike just enumerated three major factors that had caused the staff to think that maybe this forecast ought to be revised slightly upward: the behavior of consumer expenditures, residential construction, and net exports. The thing that worries us most of all, I think, is the behavior of payroll unemployment and employment. We went back and looked at the behavior of this for all the postwar upturns in the first three months following a trough. If you look at that and compare the first estimate that we have now for the last month, it really doesn't look very different from what we've had in the other postwar upturns except in one case. So, this may not be quite as alarming as it looks on the surface. With these things in mind, I don't think it's time yet to push the panic button. But I think we have to be very, very alert to the risk to the near-term outlook that is being posed by the behavior of the aggregates since we simply can't explain by econometric models or otherwise all of this weakness that we've seen in them. And that makes me worry somewhat that monetary policy could have been tighter than we really meant it to be.

CHAIRMAN GREENSPAN. President Syron.

MR. SYRON. Mr. Chairman, as to the situation in New England, there certainly isn't anything new to report, at least of a favorable [nature]. Talking to directors and businessmen more broadly, there's an increased sense of pessimism that is definitely palpable and a feeling that the region is still deteriorating. While the pace of the decline may be abating, there's certainly no sense of an upturn. The only bright spot for now is continued activity generated by mortgage rates and existing home sales and also by [housing] price adjustments. There is some slight improvement in new home construction. Given the inventory overload that we have, particularly in the condo market, it is going to be very interesting to find out just how many waterside condominiums were fully damaged by the hurricane that went through! I think the insurance industry inspectors should be quite careful [in determining] just what did cause the damage.

VICE CHAIRMAN CORRIGAN. The only problem with that is that then the burden is on all your insurance companies.

MR. SYRON. Exactly, which brings me to the next point. In terms of looking at local markets, the employment situation certainly

in the life companies and in the property and casualty companies has contributed further to this great feeling of pessimism, which is being reflected in soft retail sales and also in continued concerns about inflows and tax revenues of state and local governments and what that will mean later on.

As far as the U.S. economy goes, the concern that we have is that there may be an asymmetry of risks in the forecast toward the down side. There is information one can go through that would explain much of the softness in the Ms and that alone might not be a cause for concern if the softness in the Ms wasn't happening in an environment in which there seems to be increasing causes for concern about the real sectors of the economy. Also, what has been referred to as [funds] moving out of banks into other areas, I think does have some implication for credit flows. We do see continued concern about credit availability. I recently have spoken to the chief executive officers and the chief financial officers of all of our large life insurance companies and their standard reassurances suggest a thin veneer [covering] a sense of great concern; in a couple of cases it is almost in the panic stage or very close to it. There is an enormous caution in their lending and a great desire to increase liquidity. One very large company which is in both the life and property and casualty businesses was saying that it wanted to be in a situation within a few months where it could liquify one-third of its portfolio very quickly if it had to. It's not quite clear to me how that's going to happen. I think many of the banks feel--and I think some of this is the result of over-reaction by some of the regulators--that there's a whole generation of commercial loan officers who may not be able to function in the future because they have been through such trauma in this whole aspect. It is too early to know the impact of the hurricane on the property and casualty companies but at this stage, based on a few phone calls, it doesn't seem to be very great.

We generally agree that the Greenbook forecast is the most probable outcome. But I think, as Mike said, the probability distribution has widened, and I would guess the tail on the negative side has increased somewhat. We're very dependent on a few things that come back to confidence, including what happens in the auto industry. And in this environment, the shocks that we have going on internationally as well as domestically increase the concern on the negative side. It's something for us to take into consideration in the next [portion] of the meeting.

CHAIRMAN GREENSPAN. President Forrestal.

MR. FORRESTAL. Mr. Chairman, conditions in the Southeast pretty much parallel what is happening around the nation; the pluses and minuses in the national economy that Mike outlined are present in our [regional] economy as well. We are seeing some modest growth in retail sales along with some indications of increases in orders in major industries. Housing is picking up a little--at least housing starts are. But I must say that there is a continuing sense of pessimism among virtually all of the business people I talk to, including directors. They are really afraid now of another downturn or a double-dip. People generally are also very concerned about the bank mergers and other business consolidations that are moving along so quickly and about the potential for unemployment in their own situations and among their families. It seems to me that business

investment is virtually on hold for 1992 as a result of this pessimism among business people.

On the other hand, there are some positive signs. For example, industrial parts of the region appear to be a bit stronger; I wouldn't say it's great, but it is a little better. Increased auto production has helped Tennessee; the Saturn plant there has picked up its production. The commercial construction area seems to have hit the bottom, according to our contacts, but as we all know the vacancy rates are such that it's going to take a long time for that area to improve, and we see no evidence that the improvement is accelerating in any sense. We have budgetary restraints in virtually all of the states in our District and that's leading to spending cuts. And the depressed level of natural gas prices is causing cutbacks in production and layoffs in that area.

The credit crunch continues to confuse me; I get differing reports from different people. But cutting through all of the chaff, I think creditworthy customers will be serviced by the banks. The banks, in fact, are out looking for good loans but they're not finding much demand. In summary, as far as the District is concerned, people keep asking the questions: Where is the recovery? And if there is a recovery, why aren't business conditions better than they seem to be?

On the national side, our forecast is very similar to the Greenbook, although we do show somewhat slower growth in the fourth quarter of this year and the first quarter of next year. And even with that slower growth, our inflation number is not quite as optimistic as the staff's; we're in the range of 4 percent versus the staff's 3 to 3-1/2 percent. For reasons that have been indicated by other people, I think the risks are clearly on the down side at the moment. Like other people, while I don't ordinarily pay a great deal of attention to M2, I think this persistence in its weakness is telling us something that we have to be very careful about. Certainly if it continues to grow at these rates, we could have some serious repercussions. The financial sector also continues to concern me. We have news of financial stress constantly in the newspapers. Added to that now are scandals as well in the insurance companies. And while it's too early to tell, if the situation in the Soviet Union continues to cause uncertainty, I think that is going to cut into consumer confidence as well. Altogether, I think the risks are very clearly on the down side and we need to take that into account a little later this morning.

CHAIRMAN GREENSPAN. President Stern.

MR. STERN. Well, with regard to the national economy, I do think the incoming data taken together are consistent with a modest recovery of the type described in the Greenbook. I would add that I'm also a bit more encouraged about our prospects for disinflation as suggested in the Greenbook as well.

There's not much going on in the District that would make me doubt this general kind of forecast--I suppose that's not the most positive way to put it--except for some signs of strain and disappointment in some businesses that may have thought the recovery was going to be a little stronger than it has to date. But if you look at the other data, nonfarm employment in the District is up

relative to a year ago and the agricultural sector outside of the dairy industry is in pretty good shape. So, things seem to be continuing to move along reasonably well. Having said that, as many have already commented, there are reasons to be concerned nevertheless. Some comments have already been made about commercial real estate. We know we had a drop there and values are in the process of adjusting. But it seems to me that the spillover there is perhaps even greater than I, at least, had anticipated--not only for the financial sector and creditors in general, but for state and local governments on the revenue side. And those governments are already stressed. So, we're getting some restraint there in addition to all the other factors that we can talk about. And assuming nothing terribly unusual comes out of the situation in Russia, we're getting some restraint from the Federal budget as well. So, when I add all that up and couple it with the weakness in M2, I think there are reasons to be concerned as to whether this is going to play out in quite the positive way that the Greenbook would suggest.

CHAIRMAN GREENSPAN. Vice Chairman.

VICE CHAIRMAN CORRIGAN. Well, I don't think there's any question that the anecdotal side of things has gotten quite shaky again. Some of that is because the typical CEO of a company never really believed his or her own economists or other economists in terms of the outlook, going back two or three months ago. And I think a lot of business executives have interpreted recent data to mean that they were right and the economists were wrong. My own sense of the situation is that while things are not as good as they would like them to be, they're not as bad as they think they are either. I believe the truth still lies somewhere in the middle. Now, having said that, and as someone who has been sensitive to what I'll call financial jitters for a long time, I do think it's fair to say that confidence on the part of both consumers and business people is being further shaken by the cumulative effects of financial jitters. And financial jitters, as some people have already said, take a lot of forms here. There are new questions about insurance company scandals, and consumer delinquencies are rising. All of that is having a little impact, or perhaps even a lot, in an insidious way on confidence in general. One implication is that the economy at large is probably even more vulnerable to any kind of financial surprise or shock, even though I've believed it has been vulnerable for a long time.

There are also two things of a more intermediate nature that worry me a bit relative to my earlier expectations. One has already been touched on and that is that while the inflation outlook in some sense is better--and certainly I still think we can break that so-called core inflation rate of 4 percent that we've been living with for most of the decade--I, too, look at that second-quarter data on wages and so on with some concern. While I can readily see how we'll break the 4 percent, I'm not nearly as sure as I was some months ago that we can do a lot better than that. Indeed, it seems to me that in order to do a lot better than that one of two things has to happen. One is that overall compensation has to bend down, and I'm getting a little skeptical that that can bend down in any significant way except in the context of an economic outlook that would be horrible otherwise. Or, we have to get some real recovery [in] productivity, which doesn't look so [likely] either. So, again, I feel a little

less sanguine than I did before about the intermediate-term outlook for inflation.

The other intermediate-term thing that has gotten worse is the budgetary deficit outlook. If you look at these new estimates--whether you use OMB's or CBO's and whether you put the S&L [bailout costs] in or out--there really is a material deterioration in the intermediate outlook for the budgetary deficit. And that's a worry. Now, as Mike said, even against the backdrop of those short- and intermediate-term variables, one can conceive of a wide range of possible outcomes over the forecast period. I think the saving rate is a very large wild card; indeed, in the context of Bob Black's remarks about employment and wages and so on in other cycles, one big difference is that in other cycles we didn't have a 3.5 percent saving rate like we have right now. It's a little hard to see how that all will play out, especially if one is assuming implicitly that the rate of increase in nominal wages and compensation has to come down a lot and inflation is going to have to come down a lot. So, there's a bit of a conundrum there; again, I think the saving rate is a wild card.

Just a brief word if I may, Mr. Chairman, on M2--not so much as a policy indicator but more in terms of what it may be telling us about the economy. In looking at all the work that the staff did, I come away with the view that M2, at least in informational terms, seems to be saying two things. One is fairly benign, and that is that this reach-for-yield [behavior]--in a context in which people are a lot more sophisticated and alternative outlets are a lot easier and cheaper to get at--is an important factor here. That, in and of itself, is not something that I worry a lot about, if at all, in policy terms. But in looking at the staff's work, I come also to the view that the credit crunch is indeed a factor. Now, I can't quite yet sort out the demand side versus supply side influences that constitute the credit crunch. But I do find very revealing the table following page 6 in the staff memorandum where they try to look at the relationship between core deposit growth, capital positions of banks, and loan positions of banks. That table to me, which admittedly only covers the very short period of June 3rd to August 5th, is a very revealing table. Again, it doesn't tell us whether it's demand or supply, but I think it does tell us an awful lot: that this credit crunch [phenomenon] is quite real and that that aspect of the way the disintermediation process is working does matter for policy. As I said, the reach-for-yield [phenomenon], I think, is rather irrelevant.

CHAIRMAN GREENSPAN. Yes, this does suggest supply as the relevant issue.

VICE CHAIRMAN CORRIGAN. I'm not sure I feel I can go quite that far. Clearly, it says that supply is at work here.

CHAIRMAN GREENSPAN. Well, that's what the matrix is trying to suggest.

VICE CHAIRMAN CORRIGAN. Well, it clearly says that, but there are ways in which demand forces could also be producing at least some of this result. Certainly, I don't think one can say it's 100 percent supply. But to me it's a very revealing table and, unlike the reach-for-yield phenomenon, does have some policy implications--though not in terms of whether M2 should be used as a target. That's another

issue altogether. If anything, it says M2 shouldn't be used as a target; but I don't want to get into that debate. What it does say to me in the context of these other considerations, and in particular the emphasis on financial jitters, is that while there is a broad range [of risks, they are mostly] on the down side. Having said that, I think we're probably okay in terms of Mike's forecast or something like it. But the cumulative [impact of] all this financial stuff is a real overhang on the whole outlook.

CHAIRMAN GREENSPAN. President Guffey.

MR. GUFFEY. Thank you, Mr. Chairman. With respect to the Greenbook forecast, our staff forecast is very close to it but continues to be, as it has in the past, a bit weaker in the latter half of '91 and therefore all of '91 and a little stronger in '92; it is really a shift, I think, of some of the component parts of the forecast. So, the Greenbook forecast, as far as I'm concerned at least, looks to be the most likely outcome, and I think that the risks are basically balanced on either side at this point and that there's not a greater risk on one side than the other. As a matter of fact, we took a look at the double-dip scenario, which Bob McTeer mentioned before, and we could not see anything that resembled what the historical experience has been on double-dips. So, we believe that the projection for continued slow growth over the next six quarters is the most likely outcome.

With respect to conditions in the District, the economy seems to be slowing somewhat from what was observed before. It is due to a stalling in the [production of] natural grains in the agricultural sector and the sluggish energy and manufacturing sectors. We're projecting somewhat weaker export markets. And now this new event has taken place. You will recall that the President did agree to provide \$900 million of export guarantees to the Soviet Union; that has been put on hold as I understand it or has been or will be withdrawn, depending upon the [political] outcome in the Soviet Union. If that is the case, then the crop prices that we're concerned about, particularly corn, would be weakened somewhat simply because the market has been diminished. And that's notwithstanding the drought conditions that we still have; that may not be quite as broadly spread as in the Chicago District, but it is nonetheless real; it is spotty, and its [impact in terms of] diminishing crops is uncertain. At the District automobile manufacturing plants, production remains weak, although each of them has come forth with a increased production schedule starting in September. For example, in the Kansas City area, a second shift will be put back to work in a GM plant that has been on layoff now for six to eight months. The outlook for construction activity in the District continues to improve, mostly because of gains in residential and the non-building contract awards; the latter include infrastructure improvements on the table now for bidding, which will be concluded over the upcoming period. And despite a recent modest increase in the number of active drilling rigs in the District, energy activity remains sluggish and well below the level of a year ago. That's largely because of the uncertainty in the cost of imported crude, and there's a very weak market in natural gas. So, there's not much to encourage somebody to do any exploratory development or drilling at the moment.

With regard to the agricultural financial sector, the loan-to-deposit ratio in those banks is only at about the 52 percent level. They're looking for loans. In the whole District the loan-to-deposit ratio is at fairly low levels. There just is not the demand; there's plenty of liquidity, apparently. Lastly, our quarterly agricultural survey indicates that land prices have stabilized after coming off very low levels over the past two to three years. Prices are now about 35 percent higher than they were at that low; we had seen continued increases in agricultural land prices until this past quarter, when they essentially flattened out.

CHAIRMAN GREENSPAN. President Boehne.

MR. BOEHNE. What I sense around the table is that most of us are still keeping the faith about a modest recovery, but we have increased doubts about it and see more downside risk. I certainly agree with that. What one would like to see at this point is more convincing signs of a cumulative upturn--self-feeding kinds of factors in the economy. Yet in every one of those critical junctures, I think caution and doubt are diluting their effect. What we count on is the inventory kick and yet what we find there is a great deal of caution. People are more into a "just-in-time" kind of inventory policy. We're still getting liquidation; surely, at some point we will get accumulation but it just doesn't seem to have the potential thrust to the economy that one might expect. At the next juncture, at the hiring juncture in this linkage, we see the same kind of caution. Most of the jobs have been created in the services sector in recent years and we're already beginning to see much more caution and layoffs in that sector. The next linkage is the consumer spending area; we see caution there. A linkage further out is investment. I must say in talking with the business community that I hear more and more talk that '92 is going to be an extension of '91, and there's more caution there. So, what bothers me about this emerging recovery is that I just don't sense that these cumulative self-feeding forces are going to have the [usual] impact. Add on the financial fragility and perhaps that's part of the explanation. So, I share the view that while a modest recovery is still likely, the downside risks have increased significantly in recent weeks. Also, whenever you see more downside risk I think you have to ask yourself what the consequences are. And while I don't think a double-dip is likely, I think that a very slow recovery or something that approaches a double-dip really could have some major consequences on getting the economy going because basic confidence is in need of healing with these financial fragilities. So, I think we're in a situation now where the risks are fairly significant and we have to deal with them.

CHAIRMAN GREENSPAN. May I just ask: How do you reconcile that now with the continued strength in your manufacturing survey?

MR. BOEHNE. Well, I think what that survey is showing is the same thing that we're seeing in industrial production. A lot of that seems to be auto-related and auto supply. I find that we get those survey results--and they are very accurate if you look at them over the last 20 years--and yet if you talk to people who run the companies you would get a different story. I find it difficult to reconcile that. That survey shows more optimism than any other anecdotal information I'm picking up. I can understand that early on in a recovery but that survey is in its fifth month now of showing some

increases, which is consistent with the national industrial production [data]. But it doesn't fit the mood that one senses. It doesn't translate into hiring, for example, and it's not translating into improved capital spending plans.

CHAIRMAN GREENSPAN. Have you matched the actual report that you get against the rhetoric of the individual who is associated with that [company]?

MR. BOEHNE. Well, I haven't gone back and done that detailed a look. We have called back a number of these companies to verify the numbers. And, you know, it is a diffusion index; it doesn't actually measure the level of output. It just is another example of this gap between people who are running firms, and-- I think Jerry may have said it right: Things are not as bad as the business community thinks they are, but they're probably not as optimistic as their economists are forecasting things are going to be.

CHAIRMAN GREENSPAN. President Hoskins.

MR. HOSKINS. On this issue of concerns about the economy, we do pick up the same concerns when talking with business people. But when one pokes at their order books and asks them what is going on, really it's a matter of perception in that they [anticipated] they were going to get a stronger kick than they have gotten and their orders are either flat or up only marginally. So there is this lack of fulfillment of their expectations about what a recovery is all about. There are a couple of points to make about that. I didn't look at the numbers, but I suspect that going into a recovery in past cycles there was a lot more monetary stimulus in place, which ultimately led to some problems. So, I would tend to argue that this ought to be the kind of recovery one should have rather than the other kind. In terms of the risks that the economy is facing, I prefer to look at it the other way around: Namely, that a major mistake--if there's one being made or the risk of one being made--is that inflation expectations are too high relative to the policy that we've been delivering. And it's crucial right now in the [wage and price] setting processes that people recognize the kind of policy that we've delivered because if they don't and they set prices too high, then another adjustment will have to be made. People's [sales] expectations won't be fulfilled in terms of their price increases. And it seems to me that the only way to convince people, given that we don't tie ourselves more explicitly to a price level target, is simply to wait it out. The problem with waiting it out for better numbers--and I'm confident that we're going to get those because I think we've put a policy in place that will generate a lower rate of inflation in the near term--is that we're in the business of trying to change expectations and get people to adjust their price setting to reflect the policy we've delivered. Yet we could be in a position I think, at least I hope, of trying to boost monetary growth at the same time. So, this is a long-winded way of getting back to the idea that we probably ought to tie ourselves to multi-year targets and they ought to be associated with the price level so we don't end up in this circumstance again.

The Fourth District hasn't changed much. [Business activity] didn't go down a lot and is not coming back very strongly. The consumer side is picking up a little. The capital goods side is



rather mixed; some people feel they're at the bottom; others show slight improvements in their order books. Overall, the District is holding up pretty well because it didn't go down much.

CHAIRMAN GREENSPAN. President Melzer.

MR. MELZER. The numbers for our District show a little different pattern. These would be for the three-month period ended in June, so they're somewhat dated. But this is the first time we've shown overall employment declines in recent months. Manufacturing hasn't really changed much; it has been declining slightly. What has happened is that we haven't had the offsets on the non-manufacturing side. There is particular weakness in mining and construction. In mining it has to do with the Clean Air Act and the high sulfur coal deposits in Illinois and Kentucky; in construction, it's a reflection of [the nationwide slump that] we're all familiar with. I will say, though, that contracts in both residential and nonresidential construction show growth, so I think there's some improvement in store down the road there. Just one piece of anecdotal information on this inventory story: a large cotton grower, and he mentioned that the consumption of cotton in the textile industry is at the highest rate in 15 years. Mills are running flat out 7 days a weeks and it's basically--

CHAIRMAN GREENSPAN. [That's] the reason the crop is so huge; I gather they've got the supply to use.

MR. MELZER. Right. But the other comment he made is that the inventories have been run down to a [low] level. His instinct, anyway, is that we'll be seeing a turnaround in the inventory situation in that particular industry.

On a more general note, having listened to all the commentary, I think we have to caution ourselves at this point not to get whipsawed too much by the incoming data. We're all familiar with the lags in policy, and this is going to be a time when expectations are going to be very volatile. And at least in terms of how I look at policy, I don't think M2 is a very good indicator of the thrust of policy; I think we have to look at something narrower. On that basis the thrust of policy has continued to increase throughout this year. We just have to bear in mind, for example, that the growth rate of M1 over the course of 1991 has accelerated. I certainly can't pretend to tell you whether a 7-1/2 percent growth rate in M1 is too much stimulus. I'm just saying if we look at that as an indicator of the thrust of policy, we've been pumping more and more in. And at some point we have to have the confidence that the actions we've taken are going to have the desired effect and not [let ourselves] get whipsawed by incoming data on the real economy. To me that's a very dangerous guide for what monetary policy ought to be.

CHAIRMAN GREENSPAN. Governor Angell.

MR. ANGELL. Mr. Chairman, I'm having trouble getting used to a kind of newfound optimism, and I don't quite understand why I should be optimistic when the majority seem not to be. I suppose there are two reasons. One is that I had the lowest forecast for real growth among the Committee members; and I had the thought that given where Mike [Prell] is now I'd almost be willing to meet him half way. So,

maybe I had a lower forecast to begin with for '91. The second reason may be more strange, and that is that I've been in Colorado, and Colorado seems quite different than it has been for many years during its very long recession. When I look in Colorado, I see runways and runways and runways being built; I've never seen so many runways under construction--both in Colorado Springs and Denver. But there's a new atmosphere there. And it shows some of the ways that our system works. When house values are where they are in a place like Colorado Springs compared to California, people start to move from California to Colorado Springs. The kind of values there are just rather unbelievable. And there's certainly a definite pickup. But that's too minor a factor to explain much about the U.S. economy.

What is it, then, that gives me more optimism? And this is an optimism for 1992 maybe more so than for 1991. The optimism, I guess, comes from a reluctant realization that I'm closer to Tom Melzer in regard to M2 than I am to Lee Hoskins. I'm just not as worried as I was earlier about those M2 numbers. Don's paper was an excellent paper; it was very helpful to me to mull over what is going on in M2. And I think there's a realization that M2 is both the outcome as well as the cause. It just seems to me that M2 probably is not going to respond as much as the members of the Committee would like. But it may not have much to do with the outcome in the real economy.

Maybe my optimism is also due to the fact that the real estate price event may be almost over and that should bode well for the banking system, which I see recovering and which I think will give us a different result in 1992. But at the same time commodity prices continue to be pretty weak and rather inconsistent with a strong recovery. So, I think that means we should take a little off of our estimates for the third quarter. But if the third-quarter estimates are a little softer, that seems to me an environment in which maybe what has happened to long-term bond prices can continue if the Committee is willing to be patient. That is, if we continue to get through this quarter and into the next and the PPI numbers are consistent with what commodity prices are showing, then it seems to me that with patience we may have opportunities for additional, perhaps minor, steps to be taken in time, and long bond prices would respond as favorably as they did in this last move. Now, we not only have long bond prices for Treasuries down to 8.10 percent but we've had even more of a gain in mortgage-backed securities; and those spreads over Treasuries are narrowing considerably. And it seems to me that that bodes well for the housing recovery--which is a very gradual recovery, but I think it still adds quarter-to-quarter to the kind of results that we want to see.

The final reason for my optimism is optimism with regard to the net export picture. It seems to me that as Mexico moves more to a market-system economy with more sound monetary policy it earns the right to be a capital importer and, indeed, it is becoming a capital importer. Policies they have in place will earn them an increasing right to be a capital importer, which will be very helpful to them in their development. But I see also throughout Latin America and South America a desire to follow that mode. And if these countries become the capital importers that I expect them to become because of improved monetary and fiscal policies, then it seems to me that that bodes

better for our export industries. So, I look for a somewhat better outcome there than even the staff has forecast.

CHAIRMAN GREENSPAN. Governor LaWare.

MR. LAWARE. Mr. Chairman, I had a great temptation just to associate myself completely with President Corrigan's remarks, but I can't resist the opportunity to make a few additional comments. Obviously, the United States is probably less susceptible to whatever the events in the Soviet Union will bring forth than other countries. At this stage it's very difficult to quantify that, but it certainly muddies the crystal ball a little regardless. In spite of these glamorous mergers that were recently announced and in spite of the fact that I share Governor Angell's view that the banking system will look better in the fourth quarter and going into next year, I believe it is still fragile and still very defensive in its attitude. I think there will be further large failures and that the effect of that could be to make the others, the survivors, even more defensive than they currently are. Business profits remain very poor; they're disappointing. And I think restructuring among business firms will continue in order to improve their ability to handle debt more comfortably. And that's hardly the climate for an improved outlook for business fixed investment.

I'm still convinced that the basic problem with the pace of recovery and the sustainability of recovery is one of confidence rather than the level of interest rates. That is to say, I believe consumer confidence is reining in the growth in retail sales. I think that business confidence is responsible for the slack demand for business credit. And lender confidence is responsible for the lack of aggressive lending on the part of the banking system. The credit crunch, whether it is due to a reluctance to lend or a reluctance to borrow, is a reality. And it's the greatest threat to the recovery, which I believe is clearly underway at this stage of the game. I think banks are enjoying their new margins and I think they intend to enjoy those new margins rather than lower rates in order to attract more business, even if policy is eased further. If the banks are reluctant lenders and are well stocked with securities, they are not going to be very competitive in bidding for [retail] time deposits, and that may account for some of the recent dynamics or lack of dynamics in M2. The M2 phenomenon is not well enough understood to persuade me that it is terribly important to this whole equation and that its current behavior would justify further policy accommodation.

CHAIRMAN GREENSPAN. Governor Mullins.

MR. MULLINS. Coming into this weekend I [would have] agreed with much of what has been said around here. We had a pretty weak recovery, one with clear upward impetus in the industrial sector and in residential housing, but one that in some sense had not taken root in the way that Ed Boehne described with his cumulative reinforcing process and one characterized by this dissonance between the anecdotal data and the industrial production data. If you think of the dynamics of this recovery, you can understand some of this dissonance because if you talk to a manufacturing plant executive, he or she is increasing production not because sales have jumped but really because inventory is too lean. At some stage the cessation of inventory liquidation is going to cause manufacturers to start increasing

production even though sales haven't improved very much. That's not likely to make that executive feel very comfortable. In spite of the fact that the industrial production numbers are going to look better and are going to give thrust to the economy, that increase in production is not responding to an immediate, visible upturn in sales. And I think we're not likely to get good anecdotal data in spite of the fact that the industrial production numbers show that [production] is going on.

The second stage, of course, is that the higher production should give rise to higher income and then to higher sales and then these folks should cheer us some. It's pretty clear from the anecdotal data that there's not a lot of evidence that the second stage, which I would consider the reinforcing self-feeding process, is really taking hold. So, there is reason for concern. The argument that the industrial production numbers indicate that things are going pretty well is easy to make from our marble enclave here in Washington and harder to make if you're on the front line. But this is the tone I would currently whistle while walking through this graveyard. [Laughter] My view is that we're not far off track; we may be marginally off track. But there is concern about this process taking root. There's also concern about the waves of bad news that hit everyone about the financial system; even the BCCI and Solomon Brothers publicity contributes to the climate, though it probably doesn't have much of an impact on too many people. We continue to have weak credit growth. Money growth has been weak for over a year. I wouldn't be concerned by 3-1/2 percent M2 growth at this stage. But it seems to me that in the last couple of months the bottom has really fallen out and I am concerned about that rapid deceleration; even M1 decelerated pretty dramatically in July. I think Don's analysis did suggest that money matters, and I believe the central bank should take responsibility. I agree with Jerry that a prime concern is the supply side or the intermediation side. You can add the insurance companies to the list of sources of finance that are not likely to be helpful to below-investment-grade businesses. So, there continue to be concerns --in my mind concerns that perhaps [extend] a bit [beyond] the real economy.

Now, when you layer this weekend's events in the Soviet Union on top of this, it seems to me that those events are also clearly contractionary. When I go down my list of channels of influence, we have the possibility of reduced confidence by consumers and businesses. The Iraqi invasion last August was met by a historically large collapse in consumer confidence. [The current situation] is a bit different, but at least at the margin it can affect confidence, which can affect spending by consumers on durables and capital spending by businesses. It's going to have to hold the possibility for lowering export growth, as the European economies are affected. We've already seen a higher dollar--maybe a little less higher today than it was yesterday--and this again is a contractionary factor. [There may be] higher oil prices with the possibility of a reduction in Soviet supply; and a marginally higher long-term rate, which we saw at the end of the day yesterday, is a response to increased uncertainty. The world is a riskier place to invest long term for 30 years than it was at the beginning of the weekend and there are more incentives to stay short and liquid and there may be marginally lower stock prices as well. Defense spending might be a plus; it's also

true that the political process involved in increasing defense spending has some risks of its own to the budget deal.

When I total up this list, it's clearly contractionary on virtually every component. But compared to the Iraqi invasion, the event is clearly a lot less dramatic in virtually every component. In confidence the Iraqi event confronted Americans with the immediate prospect of the commitment of U.S. troops and also revived the memories of the oil shocks of the '70s. The Iraqi event also produced much more dramatic increases in oil prices, in the long bond rate, and a much larger decrease in stock prices. Though the events of the weekend are clearly contractionary, their cumulative weight adds probably only marginally to the outlook; it is more likely to produce a downward deflection in the slope of the recovery rather than tipping the economy into recession as the Iraqi affair did. The resilience of the financial markets in absorbing this shock yesterday is consistent with this assessment. Of course, when I say it's going to deflect the slope of the recovery, I have to admit we don't have much slope to work with, and I think it does heighten some of the downside risks. The real risk is that this is only the assessment of act one, and this is not likely to be a one-act play. Indeed, this is only the beginning. The episode is not over and we're virtually guaranteed to have future shocks as the situation is resolved or at least stabilized. When you consider the critical condition of the Soviet economy, the possibility of civil war, the still formidable military strength of the Soviets both in conventional forces and with 30,000 nuclear devices, it's pretty clear that this has the potential to deteriorate into a situation which is at least as damaging to our economy as the Iraqi war.

So, from the [perspective of a] first analysis, these events seem clearly but only marginally contractionary. It does have the potential for more serious consequences. When we add it all up, I think we have a pretty problematic situation to begin with and this adds somewhat to the downside risks and increases the tail of the risks on the down side. It is worth noting, as I mentioned, that the markets over here at least responded quite well to the first round yesterday. It's not clear the markets need our help at all in responding to this. As people mentioned, long rates also have come down almost 50 basis points in 2 months in the face of good but by no means very impressive inflation numbers and this should help the economy. We made a move a couple of weeks ago, which should also help. But as Governor LaWare noted, it has yet to dislodge the prime rate. It could be that this event might actually increase the growth of M2 by increasing the demand for liquidity, but I would not be any surer how to interpret that than I am the current improved situation.

The big factor is that events are just beginning to unfold and it's very important to assess the shape and pattern of events as they start unfolding very rapidly. I don't think we should wait until we have hard evidence of a faltering economy before we consider another move, given the lags involved. We have to anticipate; it would be nice to get ahead of some of these contractionary forces. But I think it will be most useful to see the early returns out of this episode: the confidence surveys, the new orders for capital goods surveys, the stock market behavior, and the money figures as well. There's certainly a lot of noise in the system now. And even though I do feel that the downside risks have been marginally

increased and the potential for larger problems has been increased pretty substantially, I think it's useful to wait until the noise settles down a little and then anything we decide to do might be more clearly heard.

CHAIRMAN GREENSPAN. Governor Kelley.

MR. KELLEY. Well, Mr. Chairman, it has all been said and the hour is getting late. I would just add one quick thought. I certainly share all of the downside concerns that have been expressed around this table this morning and all of the nervousness not only because I get it from this group but from contacts outside as well. But I do think it's a little early to make any judgments. While we're getting an awful lot of anecdotal evidence that is of great concern-- and that needs to be given a lot of attention--I would also try to keep in mind that we have a good many economic series that are beginning to come along fairly well. Some pretty slow but pretty firm trends are beginning to fall in place in industrial production, housing, retail sales, the purchasing managers survey, and others. And certainly all of economic history and the thrust of analysis will tell us that a double-dip is unlikely. Obviously, it could occur, but it appears unlikely. As I try to formulate my own thinking, I keep in mind Tom Melzer's caution of a few minutes ago that we not get whipsawed by the data. We also have to be careful that we don't get whipsawed too quickly by the anecdotal information. So, I think it's perhaps a time to be a little cautious and see what emerges, along the lines that David just summarized.

CHAIRMAN GREENSPAN. Thank you very much. I'm informed that coffee has arrived. It's probably cold now!

[Coffee break]

CHAIRMAN GREENSPAN. [Military forces have surrounded the Parliament] building [in Moscow], but there are also 150,000 people around the building and the crowd is growing. This is a confrontation that is obviously growing [unintelligible]. The stock market, which was up over 30 points, is now up 8; it's still up. It's an extraordinary historic event in the process of occurring. I hope we can finish up so we can go and participate.

SPEAKER(?). Or watch.

MR. BLACK. I want to be a spectator, not a participant.

CHAIRMAN GREENSPAN. Don Kohn.

MR. KOHN. In that context, Mr. Chairman, it's awfully difficult to talk about M2, but I thought I'd do it anyhow. It's not perhaps at the top of everyone's mind right now. [Statement--see Appendix].

CHAIRMAN GREENSPAN. Lee.

MR. HOSKINS. I have two questions for you, Don. One is on the P\* chart. Have you run that out any further in terms of assuming a monetary growth rate in the middle of the target range and seeing what you would get for the inflation rate in 1993?

MR. KOHN. Not since the July Bluebook.

MR. HOSKINS. We did it and it comes out to be 1-1/2 percent.

MR. KOHN. Since it's already down in the 2 percent area there is not--

MR. HOSKINS. But my second question to you is: Do you have any sense of what kind of deviation from trend growth in M2 for a period of time has an impact on the economy?

MR. KOHN. Well, we tried to look at that in a sort of reduced form way through the various ranges of causality tests in the VAR models. In the case of the more extended VAR model it had an effect but a fairly small one. That is, once you took account of interest rates and stock prices and so forth, a 1 percent deviation of M2 took about 1/4 point off of real growth for the next year and a half or so. So, there was an effect in that model, anyhow; it was fractional. But even taking account of all those other financial variables, there was a significant relationship between M2 leading income.

CHAIRMAN GREENSPAN. Any other questions for Don? If not, let me get started on the discussion. Incidentally, one of the problems I think we're having is that when a recession is over, by definition, the economy is at the lowest point in a cycle and it feels awful. The anecdotal reports we're getting from a lot of people are a reflection of the fact that the levels of orders, activity, etc. are exceptionally low. It's very interesting to get a sense [of the views] in the political realm; there is a confusion as to whether "the recession ends" means the receding has come to an end or that the economy is back up to normal. I think the overwhelming evidence is that it's the latter [view] that we run into. So, we observe different views, as Jerry points out, between economists and economists' bosses. I think we're all talking about different things, basically, and that's an issue that is going to continue to confront us.

The issue that concerns me most--the one that Jerry also raised with respect to the saving linkage--means in effect that there is a personal consumption expenditure restraint on this expansion. And although residential construction is obviously moving moderately, nonresidential is not; capital expenditures are not; and export demand is moving but not exceptionally. So, the whole dynamics of a recovery basically falls on the inventory dynamics. There what we are clearly seeing is something that in a way is unusual. With the measured rate of [inventory] liquidation that we are getting--assuming the numbers are correct--one would expect to begin to see the historic dynamics start to emerge here. The way it has tended to run historically is that as liquidation begins to ease and production moves up to consumption, the lead times on the deliveries of materials begin to stretch out as we begin to get some squeeze on [production] facilities. And the increase in lead times has created an increased desire for inventories on the part of the purchasing managers. They start to increase their orders to reach their new inventory goals, which in turn puts still greater pressure on production facilities, which in turn is what that self-feeding process from the inventory side is all about. However, if we look at the lead times in the

National Association of Purchasing Managers [survey], it's pretty clear that for production materials especially it is dead, flat. It actually has been easing down recently. And it is consistent with the notion that "just-in-time" has really taken over the whole inventory process. But unless and until we begin to see some of that pressure emerging and the dynamics of new orders beginning to move in the historic pattern, we will have this very extraordinary concern that this [recovery] may stall on the final demand side before the dynamics take hold. I doubt that that's going to happen; there is no reason to suggest that. As Governor Angell points out, the commodity prices are soft and are in fact reflecting this very process, but they're not collapsing; indeed, the steel scrap price has even gone up a little and that, as Wayne knows, is my favorite commodity price. There are good reasons for that. It actually has been telling us a great deal about the durable goods part of the system. In any event, while I do think that the odds still strongly favor the ignition of the dynamics and the acceleration [of the expansion] and, indeed, the likelihood is that the next Greenbook forecast will be revised up, the risk structure has nevertheless clearly increased.

So, while there is clearly no policy purpose that I can see in moving rates lower immediately, I would suggest nonetheless that with a directive without change--the "B" version--we ought to be asymmetric toward ease with the recognition that if events continue to deteriorate, we would move. But we ought to be careful to make sure that that is in fact what is going on and not be whipsawed by the statistics as they go back and forth. At the moment it is very difficult to make the case that the economy is falling back into a double-dip recession. The recovery is slow, sluggish, and frustrating, but it is still plus. And it could very well become a significantly larger plus than any of us senses, certainly from the anecdotal evidence.

If we get to the point where the evidence suggests that further easing might be necessary, I suspect that would require a discount rate move. I think we'd have to be prepared to do that if events move in an adverse direction. In any case, I would like to put on the table as a suggestion that we adopt variant "B" asymmetric toward ease. And frankly, I would prefer version II of the text that Don suggested [in the Bluebook] with respect to the language of how the money supply concerns are evolving and are affecting policy as they very obviously are. President Syron.

MR. SYRON. Mr. Chairman, I agree with your conclusions and prescription, which is "B" asymmetric toward ease. On the margin I would be reasonably comfortable going to version II in the current circumstances. I must say that in a lot of other circumstances I would have a concern about moving the aggregates up to that level of prominence. But given the weight that has been assigned to the aggregates by many in the public arena and in the markets, I think it's worth doing. My concurrence with your view is based on the notion that it's not just an immediate double-dip that is my concern; I'm really concerned about a prolonged period of weakness characterized by no growth or very slow growth rather than a double-dip and the potential impact on the financial system. That could lead us potentially to a situation that, unlike the forecast, causes a downturn later on that would lead us to have to take moves that are



inconsistent with our longer-term objectives. So, I think less now is better than more later.

CHAIRMAN GREENSPAN. Okay. President Hoskins.

MR. HOSKINS. Mr. Chairman, I can live with your suggestion. I would prefer to move now--not because I'm so wedded to M2 that I'll live and die with it, but because it's the instrument that we've been using. In terms of our targeting, it's the one we've been telling the market that we were going to deliver on, and we're running the risk of falling outside the target range. It also seems to me to be the aggregate that better affects the future. I don't know what we can do about the economy today or tomorrow; I don't think we can do much. But we can do something about 1992. And if we've erred and M2 comes back, then I'm perfectly prepared to reverse course. But I judge policy essentially by rates of change in the monetary aggregates, and we're deviating from trend [M2 growth by] perhaps as much as 2 percentage points. What we think we know about that is that it's going to slow the economy--unnecessarily, I think--in 1992. So, I would urge you to move sooner rather than later.

CHAIRMAN GREENSPAN. President Black.

MR. BLACK. Mr. Chairman, in most cases I would agree with Lee, but I think there are some special factors at work here. So, I would buy all three of your recommendations--"B," asymmetry toward ease, and version II.

CHAIRMAN GREENSPAN. President Parry.

MR. PARRY. Mr. Chairman, I would agree with your recommendation on alternative B. It does seem clear that the economy is likely to undergo a moderate recovery and that--also similar to the Greenbook forecast--we'll see modest gains with regard to inflation. However, I do feel that there are risks on both sides of the forecast and I'm not so sure that they're all that unbalanced. So, if I had a preference, it would be for symmetric language.

CHAIRMAN GREENSPAN. Governor LaWare.

MR. LAWARE. Mr. Chairman, I agree with the "B" recommendation. Like President Parry, I would prefer the symmetric language. I guess I'm not persuaded that we have enough certainty about the behavior of M2 to think that we can push the button and make it happen. I don't expect that the projection on the growth levels under the different scenarios is necessarily going to happen just that way. So, I would prefer "B" symmetric.

CHAIRMAN GREENSPAN. President Stern.

MR. STERN. I support your recommendation, Mr. Chairman. It seems to me that whatever the explanation for M2 may be--and I don't know that we'll ever have a fully satisfactory one--this is not the time to let it either fall below the target path or deviate very significantly from its performance over the last four years or so. So, I think we should pay some attention to it. And we probably should go with the language in version II, giving M2 somewhat greater prominence in these circumstances, which I think is appropriate.

CHAIRMAN GREENSPAN. Governor Angell.

MR. ANGELL. Mr. Chairman, I agree with your recommendation on "B," and the version II [language] is okay. I'd have a slight preference for symmetric language but with you at the switch I don't see that the meaning is any different. [Laughter]

I would like to suggest that what we're going through here is, of course, painful. But it's less painful to me than what I considered to be of some possibility six months ago, which was that we'd be through this event and back out and never get the rate of inflation down. It just seems to me that we do have to have a little patience here. I think we're entering a period in which we're making more progress toward price stability than during any of the period that I've been here. And there's so much joy in that to me that I'm able in a sense to endure a little of the agony. But that doesn't mean that I want it to continue into another year. I'm very open to the Chairman's suggestion.

CHAIRMAN GREENSPAN. President Keehn.

MR. KEEHN. Mr. Chairman, given the risks as I see them--I think I heard some comments of the same nature around the table--I would prefer to do a bit more now. But having said that, I find your recommendation entirely acceptable: namely, alternative "B" with version II language. [Nevertheless], I hope it would not take the accumulation of an awful lot of negative data before we make a move.

CHAIRMAN GREENSPAN. How would you go on the directive language version?

MR. KEEHN. Version II.

CHAIRMAN GREENSPAN. Governor Kelley.

MR. KELLEY. Mr. Chairman, I certainly concur with your "B" asymmetric toward ease recommendation, but I would prefer the language in version I. I don't want to quarrel about it; I'm not going to vote "no" over it. But in the light of our long inertia, as we discussed earlier this morning, and the factors that we've discussed around this table that surround M2, the situation just doesn't seem to me of a nature that it would call for a departure [from wording] that we have been using for a long, long time. So, I would prefer staying with version I but can accept version II.

CHAIRMAN GREENSPAN. President Forrestal.

MR. FORRESTAL. Mr. Chairman, I think one can make a fairly persuasive case for easing now. I would make it more on the basis of a boost to confidence and getting a little ahead of the risk and also with some element of M2. But having said that, I don't think it's a compelling argument, and I would be satisfied with the prescription you have outlined, which would be "B" asymmetrical. I have a slight preference for version I, but I can certainly live with version II.

CHAIRMAN GREENSPAN. President Melzer.

MR. MELZER. I prefer "B" symmetric, but were I voting I could certainly live with what you suggested. With respect to the language, let me just raise a question. It's possible that M2's behavior has nothing to do with what the real economy may be doing, and I question how we would be reacting to it. Let's say that we're sitting here a month from now and M2 is still not performing and we're much more comfortable about what we see unfolding anecdotally on the real side; I think that language could trap us. I'd be much more comfortable if, when we refer to the monetary aggregates, we were referring to them very broadly--in other words, including M1. I think we're getting ourselves into a trap in terms of too much focus on M2 and M3, which we can't directly control. We would have much more opportunity to keep ourselves out of a corner that we may be painting ourselves into if we thought about M1 a bit. I'm not saying we should target M1; but if we thought about it a little more, it might help keep us from getting painted into that corner. So, for that reason and because I presume we're not really looking at M1, I'd favor version I in the language; I don't want to be painted into that corner.

CHAIRMAN GREENSPAN. Governor Mullins.

MR. MULLINS. I think there is a legitimate case for making a move now, but perhaps there's a somewhat more persuasive case to stay asymmetric toward ease and assess the impact of the last move. The lower long rates may have some impact, and if we can get some returns from them as events unfold, our moves may have a bit more impact later on. So, I would support asymmetry toward ease, although it seems to me the way things are shaping up that the probability is pretty high that we will have to move again. I would also marginally prefer version I, under the same logic that Governor Kelley and Tom Melzer mentioned. We have a strong tradition of no change in this directive, as you pointed out. But it does reduce our flexibility marginally. I could easily live with version II, but I would have a marginal preference for version I.

CHAIRMAN GREENSPAN. Vice Chairman.

VICE CHAIRMAN CORRIGAN. "B" asymmetric is okay with me. On the language, I seem to remember that at the end of the last meeting I said something along the lines of "The worst thing I can think of in some sense is an economy that appears to be recovering and M2 is dead in the water." And that's what we've got. I don't trust M2 and I trust it less today than I did six weeks ago. For that reason, I would favor version I. I think Tommy's point about getting trapped by that is a concern.

CHAIRMAN GREENSPAN. It's the obvious problem. President McTeer.

MR. MCTEER. I have no problem with your recommendation. I would have a slight preference for alternative A and version II, primarily because I think the economy could use some lower interest rates. And if we can believe the menu that has been presented before us, we have an opportunity here to get some lower interest rates with very little acceleration of money growth rates. If we have a choice like that, I don't think we ought to turn it down. But your

recommendation would be fine and I would urge you to use your asymmetry quickly.

MR. MELZER. Like Wayne did. [Laughter]

CHAIRMAN GREENSPAN. President Boehne.

MR. BOEHNE. Well, I think your recommendation makes sense. I came to this meeting, before the Russian developments, thinking that we ought to ease now; but there is something to be said for waiting. But I wouldn't be overly patient about using the asymmetry. I have a slight preference for version II but not a huge one.

CHAIRMAN GREENSPAN. President Guffey.

MR. GUFFEY. I would opt for "B" with a symmetric directive, given the fact that you have the authority under the procedures to move without consultation of the Committee. I would marginally favor version II.

CHAIRMAN GREENSPAN. Okay.

MR. ANGELL. Mr. Chairman, after hearing Mike and Tom, I think I would really prefer version I.

CHAIRMAN GREENSPAN. Well, I want to split the vote because I think that's an important difference. What we'll do is vote separately on the language because, as I read it, we have a fairly substantial consensus on alternative "B" asymmetric but not on which version of the language. And I think it would be best if we voted separately.

MR. ANGELL. Do you want a recorded vote in the minutes, Mr. Chairman?

MR. KOHN. Why don't you just have a show of hands or something?

MR. ANGELL. Why don't we just recount?

CHAIRMAN GREENSPAN. What's wrong with having a recorded vote?

MR. KOHN. Because then people who dissent may have to write dissents!

CHAIRMAN GREENSPAN. Okay, good enough. [Laughter]

MR. KOHN. More accurately, the Secretariat would have to write dissents for people.

MR. BERNARD(?) I could live with a dissent or two.

CHAIRMAN GREENSPAN. Since he has the official scorekeeping, I can [check] the score. I have: Corrigan I; Angell I; Black II, Forrestal I; Keehn II; Kelley I; LaWare--

MR. LAWARE. I.

CHAIRMAN GREENSPAN. Mullins I; Parry--

MR. PARRY. II.

CHAIRMAN GREENSPAN. That is very slightly in favor of version I, so I would propose for a vote alternative "B" asymmetric toward ease and version I with respect to the language. Could you read that?

MR. BERNARD. "In the implementation of policy for the immediate future, the Committee seeks to maintain the existing degree of pressure on reserve positions. Depending upon progress toward price stability, trends in economic activity, the behavior of the monetary aggregates, and developments in foreign exchange and domestic financial markets, somewhat greater reserve restraint might or somewhat lesser reserve restraint would be acceptable in the intermeeting period. The contemplated reserve conditions are expected to be consistent with a resumption of growth of M2 and M3 in the weeks ahead; but in view of the decline already posted since June, the Committee anticipates that M2 would be little changed and M3 would be down about"--do you want 1-1/2 percent?

MR. KOHN. Well, make it 1 percent.

MR. BERNARD. --"down at an annual rate of about 1 percent over the period from June through September."

CHAIRMAN GREENSPAN. Will you call the roll?

MR. BERNARD.	
Chairman Greenspan	Yes
Vice Chairman Corrigan	Yes
Governor Angell	Yes
President Black	Yes
President Forrestal	Yes
President Keehn	Yes
Governor Kelley	Yes
Governor LaWare	Yes
Governor Mullins	Yes
President Parry	Yes

CHAIRMAN GREENSPAN. Okay. Our next meeting is on October 1st. And we have 9 minutes until we begin our 1:00 p.m. luncheon.

MR. BERNARD. Dining Room E.

CHAIRMAN GREENSPAN. Dining Room E, a celebration.

MR. BLACK. Celebration?

END OF MEETING